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While diversity encourages creativity, it can form faultlines and divide teams. How to manage faultlines is vital for organisational success

It is widely acknowledged that diversity is good for business. Companies are all trying to make their workplaces as diverse and inclusive as possible. In the [2016 Diversity and Inclusion \(D&I\) index](#) launched by Thomson Reuters ranking the top 100 most diverse and inclusive listed companies, tech giant Microsoft and multinational conglomerate Procter & Gamble were among the top performers.

However, does diverse work team really outperform homogeneous teams? Do diverse teams make better business decisions? The answer seems to be yes, according to a study by the Boston Consulting Group (BCG) which reveals companies with more diverse management teams produce an increase of revenue by 19 percent.

However, there are always two sides to every coin. Having a diverse team may spark more creativity. But, at the same time, being exposed to people with different cultural upbringing and values can increase discomfort at work. Various conflicts and the feeling that you can't seem to get on with fellow team members are not uncommon for those working in diverse teams. And it is natural for people to bond with those who share a few similarities. Such behaviour creates the so-called *group faultlines*.

Similar to the faultline in geological context, group faultlines are used to describe the hypothetical dividing line that separates different subgroups within a group. These subgroups can be formed based on surface attributes such as race, gender and age. Deeper individual characteristics, such as personality and personal beliefs, can also lead to the formation of group faultlines. Past research studies have shown that the effects of surface diversity tend to be short term while diversity caused by deep personal characteristics are likely to last longer.

FAULTLINES EXIST IN TEAMS

Specializing in demographic diversity and faultline management, Prof. **Dora Lau**, Associate Professor of the Department of Management at The Chinese University of Hong Kong (CUHK) Business School, says that group faultlines may go undetected for many years.

"The issues across the members of a group may go unnoticed even for many, many years; team members may never become fully aware of their existence," Prof. Lau explains. "Hence, the triggering or activation of faultlines within a group can shake team members' understandings of each other and can create subgroup conflicts, detrimental group processes, and reduced performances." Just like when the Earth's crust gets disturbed, an "earthquake" may happen to the group when the faultline is activated.

Her research study entitled "[Faultlines](#)", in collaboration with the late Prof. Keith Murnighan from Kellogg Graduate School of Management at Northwestern University, reveals the fact that faultlines can remain dormant also explains the mixed and inconsistent effects of diverse workplaces.

Some group faultlines are also stronger than others. She says: "For instance, a group of two young female Hispanic secretaries in their 20s and two older male African American accountants in their 50s would have a strong faultline due to the homogeneity underlying the two subgroups.

In contrast, a more random mixing of their demographic characteristics of the group members would create a group with weaker faultlines, if one existed at all,” says Prof. Lau.

TRIGGERS OF FAULTLINES

Previous literature have identified several triggers for faultlines. One of them is faultline-related events or issues. For example, the discussion of retirement packages in a workplace with strong age faultline may make team members become more aware of their age differences. Language is another trigger for faultlines. Studies have found that people felt excluded when they heard conversations in a language they did not understand and such feelings can have consequences on their evaluations of their own self-worth and willingness to contribute to the team. In addition, external context including group tasks, group meetings, socio-political context, organizational cultural alignments and the roles of group leaders can all activate faultlines.

Even in the same culture, such as Chinese, subgroups may also exist, depending on the city you’re born or currently living in. An interview study revealed that Shanghai residents are keenly aware of their residency and would like to include other Shanghainese as in-group members while Beijing residents are less concerned.

“When members strive to obtain more resources and protect their subgroups, between-subgroup conflict, behavioural disintegration, lack of trust and willingness to share information, and communication challenges are likely to happen,” said Prof. Lau. “As a result, group performance is often negatively affected, and sometimes groups may even be dissolved.”

FAULTLINES IN TOP MANAGEMENT

In fact, not only individual employees can be affected by faultlines. Past research have shown that top management teams and even board of directors can be influenced by faultlines.

“For example, top management teams with strong faultlines did not favour novel foreign explosion while board of directors were less reluctant to discuss critical entrepreneurial issues,” she says, adding the reason being that strong faultlines often increase the difficulty of getting commitment from teams’ members in making risky decisions.

FAULTLINES IN FAMILY BUSINESS

However, there is one scenario in which faultlines can be useful in management – family business.

In another study, she looked at family faultlines, referring to the natural division of family versus non-family members. Past literature have already established that the primary purposes of family business owners to hire non-family members as professional managers are to gather external information, knowledge and non-redundant skills to support business growth.

In the study, after measuring firm performance by the Return on Assets (ROA) of all the family-owned firms listed on the Shanghai and Shenzhen Stock Exchanges from 2004 to 2010, the team found that large family faultline size was actually beneficial to a firm’s performance, given that there is low unfavourable treatments to non-family members than family members and limited alternative sources of expertise.

“Large faultline size in family business the top management team are characterized by similar demographic characteristics within subgroup while large differences between subgroups. For the non-family team members, their demographic similarity provides social support for them to voice their expertise opinions,” Prof. Lau says. “Large faultline size also gives rise to more elaborated and innovative strategic decision making, which is essential for a family business to achieve better performance.”

FAULTLINES AND PERFORMANCE: SIZE MATTERS

However, are group faultlines always bad for group performances?

Expanding on past research studies, Prof. Lau concluded that the bonding between members due to similarities can increase communication, trust and support in a group's development processes and consequently enhance group performance. On the other hand, faultlines based on education and functional backgrounds can facilitate an exchange of knowledge which can achieve the overall group goal. However, things can get ugly when some of the subgroups grow in size.

"Subgroup size is often a matter of power. Larger subgroups imply more support from relatively homogeneous members, who therefore are more likely to be ready to voice their opinions. In contrast, members of smaller subgroups are more likely to worry that their voice will receive little support and be opposed or even ignored by the members of larger subgroups," Prof. Lau explains.

"In sum, at a minimum, different subgroup sizes in faultline groups can activate power plays, members' perceptions of threats, and variations in their expectations of self and others," she says.

HOW TO MANAGE FAULTLINES

How do we avert group faultlines? Most importantly, how can we dampen their effects on group performance once they have been formed?

According to Prof. Lau, there are some management tactics which can help.

"Companies can introduce cross-cutting membership, encourage friendship ties between subgroups, and emphasize overall group identity and objectives. However, when all tactics fail to work, they may have no choice but to change member composition," she says.

It is also worth to note that difficult cultures may react differently to group faultlines. For example, the basis of group faultlines in North America are likely to be about individualistic culture and differences; whereas for collective cultures such as Asia, their subgroups could be formed based on their personal identification with leaders or political interests.

"These contextual differences are important avenues for understanding the boundary conditions of group faultline effects," says Prof. Lau.

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